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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Proposals to Revise the Methodology for)	CC Docket Nos. 96-45, 97-160
Determining Universal Service Support)	
)	

To: Common Carrier Bureau

COMMENTS OF CELPAGE, INC.

Celpage, Inc. ("Celpage"), by its attorneys and pursuant to Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, hereby submits these Comments in response to the FCC's April 15, 1998 Public Notice ("Notice") in the above-referenced proceeding. In particular, Celpage responds to the "Proposal of Puerto Rico Telephone Company" ("PRTC"), which would maintain Universal Service support in "insular areas" at their current levels, should any proposed proxy model reduce support payments below their current levels.

I. Statement of Interest.

Celpage is the parent company of Pan Am License Holdings, Inc., a Commercial Mobile Radio Service ("CMRS") licensee with facilities throughout the Commonwealth of Puerto Rico and the United States Virgin Islands. Celpage provides one-way paging services, under Parts 22 and 90 of the Rules, through wide-area paging networks that are interconnected to PRTC's local telephone network. Celpage has grown to become the second largest paging company in Puerto Rico, and is one of the largest privately-owned paging companies in the United States.

Celpage is second in size only to the Puerto Rico government owned paging entity, Celulares Telefonica ("CT"), which is a division of PRTC. Celpage currently provides service to

approximately 138,000 paging units throughout Puerto Rico. Celpage offers alphanumeric and numeric messaging services to its customers and handles an average of 10 million calls per month.

PRTC provides local and interexchange telephone service within Puerto Rico. In addition, PRTC operates paging services through its "CT" division, which directly competes against Celpage. PRTC currently has nearly twice as many paging units in service as Celpage, its nearest competitor. Consequently, due to its status as an inter-carrier and competitor with PRTC, Celpage has standing as a party in interest to file formal comments in this proceeding, and has personal knowledge of relevant facts that the FCC should consider before acting on PRTC's Proposal.

II. Summary of Celpage's Response to PRTC Proposal

Celpage finds itself in the unusual position of having to support a PRTC proposal, not for PRTC's sake, but for the sake of all telecommunications carriers and customers in Puerto Rico. PRTC's proposal should be adopted by the FCC, but not for the reasons cited by PRTC. The FCC should allow PRTC to continue to receive existing universal service supports through the year 2001 because, due to decades' worth of government ownership, unlawful cross-subsidies, and lack of independent regulatory oversight, among things, PRTC simply will not be able to maintain service in Puerto Rico at acceptable rates if it must rely on any of the proposed proxy models.

III. PRTC's Current Subsidies

PRTC's Proposal states that in 1997, it received over \$107 million in combined universal service and long term support. PRTC Proposal at 6. PRTC is obviously worried that under

either of the proposed proxy models, that support will be reduced to either \$37 million or as little as \$682,000 starting next year. Id.

According to FCC records, PRTC's problem is actually worse than it has suggested to the FCC. In the document titled "Universal Service Support and Telephone Revenue by State" published by the Common Carrier Bureau's Industry Analysis Division in January 1998 (hereinafter, the "Division Report"), the following components of the Puerto Rico Universal Service Fund ("USF") contribution for 1997 are itemized:

Long Term Support - PRTC received \$96,580,000 out of a total \$471,126,000, or 20% of the total in the entire United States.

High Cost Support \$48,935,000 out of a total of \$825,644,000, or 6% of the nation's total.

PRTC received in 1997 a total of \$145,574,000 in support payments, while contributing only \$8,944,000 to the USF.

In light of these figures, Celpage agrees with PRTC's proposal for a postponement of the USF proxy model until at least January 1, 2001; however, Celpage disagrees with the reasons given for the need for such postponement. The reality is that the continuation of these PRTC subsidies will reward PRTC for decades' worth of unregulated, monopoly practices; however, the sudden elimination of these subsidies would wreak financial havoc on competitive telecommunications carriers and their customers in Puerto Rico.

Assuming that PRTC's subsidies total \$146 million, and 25% is supported from the federal fund, the government of Puerto Rico would have to impose about \$109,500,000 in USF contributions to make up the shortfall, which is approximately an 11% tax on all intrastate Puerto

Rico telecommunications revenues. The total tax on telecommunications services, including federal USF contributions and local USF contributions, would amount to over 16%. This regressive tax will become a huge entry and operational barrier for competitive carriers such as Celpage, and could price essential wireless telecommunications services out of the reach of hundreds of thousands of personal and business users.

These costly support fees will also exacerbate existing anticompetitive problems in Puerto Rico. PRTC will have no incentive to pass these costs through to its customers (so long as its subsidies remain intact, it has no economic incentive to pass through these additional taxes); but, competitive CMRS carriers will have no choice but to pass through to their customers a 16% increase in their operating costs. Hence, while competitive carriers' operating costs will increase solely to subsidize PRTC's operations, PRTC will enjoy a distinct price advantage with respect to wireless and wireline services.

For these reasons, and the reasons stated in the comments of Puerto Rico's Association of Competitive Telecommunications Providers ("ACTP"), the FCC should allow PRTC to continue to receive its \$146 million in subsidies. The alternative would put Puerto Rico's telecommunications industry into financial turmoil, and jeopardize service to thousands of consumers. Nevertheless, the FCC ought to immediately begin a thorough investigation of PRTC's operations, to determine how and why PRTC is spending so much more per telephone loop and line than any comparable LEC in the United States.

IV. PRTC has been an Unregulated Monopoly for over 20 Years

The main reasons why PRTC has come to rely so heavily on universal service subsidies are these: (1) PRTC has not been subject to any independent regulatory authority since 1975;

hence, its rates and practices are not at all "cost based"; and, (2) PRTC is owned and operated by the local government; hence, it does not have to answer to shareholders or an independent board to justify its operating expenses and practices.

PRTC operates with minimal regulatory oversight because there is no local utility commission that has any authority over PRTC's rates; existing regulatory authorities have only limited powers concerning some of PRTC's practices. In fact, even though Puerto Rico recently created a new Telecommunications Regulatory Board, that Board is prohibited by law from adopting any rate regulations. Despite these limitations, this new Board has made great progress in investigating, and ameliorating, some of PRTC's more conspicuous anti-competitive practices. Nevertheless, absent some form of independent cost-based review, neither the Board nor the FCC will ever be able to determine how PRTC has been spending these enormous annual USF subsidies.

PRTC obviously wants the FCC to accept that its \$146 million annual subsidies are justified; but, there is no evidence that PRTC's practices have *ever* been cost-justified. PRTC claims that the two proposed cost studies suggest some inequitable consequences for PRTC; but, the contrary conclusion is more likely: even the more generous of the two cost studies suggests that PRTC's costs are way out of line from what they should be. Since the local Board is limited by law from investigating or setting any cost-based rates for PRTC, it is crucial for the FCC to conduct this analysis, before continuing to issue an annual blank check to PRTC.

Conclusion

WHEREFORE, the foregoing premises considered, Celpage respectfully requests that the

Commission adopt PRTC's Proposal on an interim basis, but only with the forgoing conditions.

Respectfully submitted,

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Date: May 15, 1998

CERTIFICATE OF SERVICE

I, Rhonda M. Johnson, a secretary in the law offices of Joyce & Jacobs, do hereby certify that the foregoing Comments of Celpage, Inc., was served, on this 15th day of May, 1998, by first class U.S. mail, postage prepaid upon the following:

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